



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Performance of the Council's Pension Fund</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <i>Tri-Borough Director of Treasury and Pensions</i> <a href="mailto:pdriggs@westminster.gov.uk">pdriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## **1. Executive Summary**

- 1.1 This report presents the performance of the Pension Fund's investments to 31 March 2021, together with an update of the funding position.
- 1.2 The Fund outperformed the benchmark net of fees by 0.2% over the quarter to 31 March 2021 and the estimated funding level was 102.3% as at 31 March 2021.

## **2. Recommendation**

- 2.1 The Pension Fund Committee is asked to:

- Note the performance of the investments and the funding position.
- Give consideration to transitioning the Baillie Gifford Global Alpha Equity mandate into the Paris Aligned version of the fund.

### **3. Background**

- 3.1 This report presents a summary of the Pension Fund's performance to 31 March 2021 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment advisor.
- 3.2 The investment performance report shows that, over the quarter to 31 March 2021, the market value of the assets increased by £42m to £1,749m. The Fund outperformed the benchmark net of fees by 0.2% over the quarter, with all managers delivering positive performance with the exception of Insight. Longview, CQS, Aberdeen Standard and Pantheon all outperformed their benchmarks during this period.
- 3.3 Over the 12-month period to 31 March 2021, the Fund outperformed its benchmark net of fees by 4.6% returning 32.7%. This was achieved largely as a result of excellent performance within the Baillie Gifford Global Equity portfolio and the CQS MAC mandate, which outperformed their benchmarks by 17.3% and 20.8% net of fees respectively. Over the longer three-year period to 31 March 2021, the Fund outperformed the benchmark net of fees by 0.5%, again with Baillie Gifford being the major contributor. Longview underperformed their benchmark net of fees by -2.5% during this period.
- 3.4 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte removed Longview's Global Equity strategy from its rated manager list, following the departure of the co-founder and CIO Ramzi Rishani. During January 2021, Jamie Carter joined as Chief Operating Officer and Matt Tunna joined the Investment team as a Research Analyst.
- 3.5 Following the end of the quarter, LCIV announced they are in the process of hiring a new Chair and it is expected they will make an official announcement in due course. During April 2021, Alison Lee joined the team as a new Responsible Investment manager and will work on development of the LCIV's sustainable investment strategies. Rob Hall, Head of Public Markets, will be leaving the LCIV in June 2021 and the recruitment process for his replacement has commenced.
- 3.6 During April 2021, the LCIV launched a Paris Aligned version of the Baillie Gifford Global Alpha Equity fund. The Paris Aligned fund is an exclusions-based version of the traditional Global Alpha fund, which the City of Westminster currently holds, and both funds are managed by the same investment team with the same fees and investment objectives.

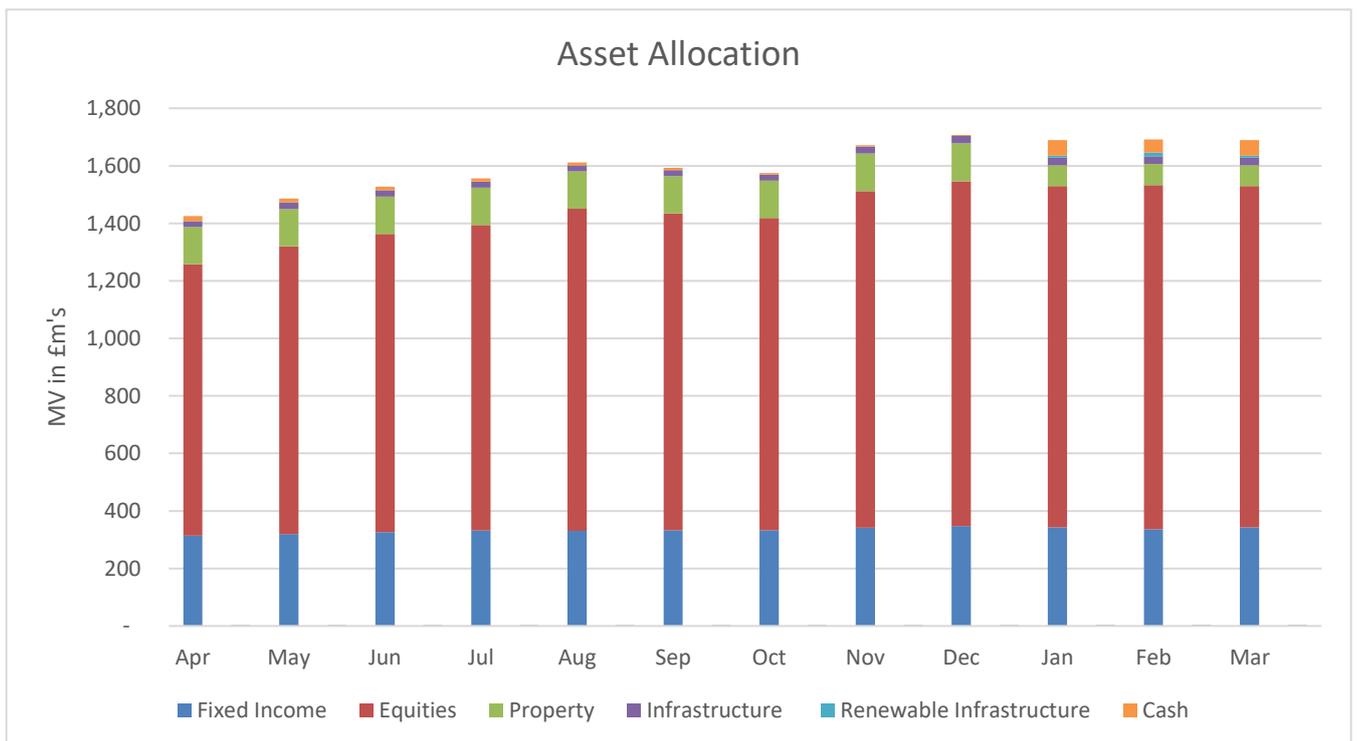
- 3.7 There is a stock overlap of circa 94% between both funds, and the Paris Aligned version is expected to track the Global Alpha performance over time. The Paris Aligned version has two carbon screens applied to the fund, which currently excludes nine of the Alpha core portfolio.
- 3.8 The Paris Aligned fund aims to have a weighted average greenhouse gas intensity lower than the MSCI ACWI Climate Paris Aligned Index, which is consistent with the reduction in emissions needed to meet the Paris Agreement targets. The fund has a carbon intensity 50% lower than the MSIC ACWI and targets a year-on-year decarbonisation rate of 10%, to meet the 1.5C warming target limit. As at 30 April 2021, the fund has invested capital of £483m from two London boroughs, with more investments anticipated.
- 3.9 The Fund holds Booking Holdings Inc. within its LCIV (Baillie Gifford) Global Alpha and LGIM Future World equity funds. The company has been identified by the United Nations (UN) as conducting business in Israeli/Palestine territories, under its subsidiary Booking.com. Booking.com is an online travel agency for making reservations at properties listed on the site. It should be noted that the company does not currently report annually on its climate impact, strategy, sustainability goals or plans to transition to net carbon zero. In addition to this, Booking Holdings has only recently drafted a sustainability report, which includes a small section on human rights, but however this report makes no such mention of its operations in the Israeli/Palestine territories.
- 3.10 There are three resolutions to be voted on at Booking Holdings Inc. upcoming AGM on 3 June 2021. These relate to two resolutions on climate change put forward by As You Sow, a non-profit foundation with the aim of promoting corporate responsibility. Alongside a resolution by the company to re-elect Glenn Fogel as the Chief Executive Officer (CEO). The Local Authority Pension Fund Forum (LAPFF), of which Westminster is a member, has recommended that shareholders vote for the proposals on climate disclosures and against the re-election of CEO Glenn Fogel. The LAPFF believes that the company's position on human rights is inadequate and considers the CEO accountable for this lack of awareness.
- 3.11 The London CIV has insisted to Baillie Gifford that they should vote in line with the LAPFF voting alert on these resolutions and has requested a clearer stance and further discussions from the manager on Booking Holdings. Baillie Gifford has advised that they are concerned about the broader reputational impact this could have on the business and is actively engaging with the company to understand what its policy is on this issue.

3.12 LGIM has voted for the climate proposals, citing it seeks to encourage Booking Holdings to make further efforts on its climate change related actions and reporting. The manager also voted for the proposal to re-elect the CEO, but did vote against the Executive Officers' performance remuneration. LGIM does not take unsolicited political positions on behalf of clients and their investments reflect national and international laws and treaties.

3.13 The estimated funding level (Appendix 2) for the Westminster Pension Fund has increased by 2.9% to 102.3% as at 31 March 2021 (99.4% at 31 December 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 91.0% as at 31 March 2021 (90.0% at 31 December 2020). The Council plans to pay off its deficit by 2022, with a final payment of £80.0m due during 2021/22.

#### 4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 April 2020 to 31 March 2021. Asset allocations may vary due to changes in market value.



\*Fixed Income includes bonds and Multi Asset Credit

4.2 The current Westminster Pension Fund target asset allocation is 65% of assets within equities, 19% in fixed income, 5% within infrastructure, 5% within property and 6% in renewable infrastructure.

- 4.3 Following the appointment of two new renewables infrastructure managers in December 2020, the sale of the Hermes property fund took place during mid-January 2021. Subsequent to this, the first Quinbrook drawdown took place during January and in February for Macquarie. It is expected that these funds will be circa 50% drawn by March 2022.
- 4.4 A capital call for the Pantheon Global Infrastructure Fund took place during March 2021, with the fund 45% drawn as at 31 March 2021.
- 4.5 The value of Pension Fund investments managed by the LCIV as at 31 March 2021 was £866m. This represents 50% of Westminster's investment assets. A further £398m continues to benefit from reduced management fees, Legal and General having reduced its fees to match those available through the LCIV.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**Background Papers:** None

**Appendices:**

Appendix 1: Deloitte Investment Report, Quarter Ending 31 March 2021

Appendix 2: Barnett Waddingham Funding Level Update at 31 March 2021